COOP'S TECHNOLOGY DIGEST

-A Timely Report on The World of Communications-

Published as a confidential industry newsletter ten times each year by electronics and technology author Robert B. Cooper. Reports here are source checked for accuracy prior to publication; readers are cautioned to conduct their own verification of data prior to formulating business judgements based upon reports here. Data of unverified authenticity may be so-labelled as a guide to reader caution. The publisher draws upon 41 years of leading edge electronic industry media experience but can be misled by those with clever agendas. Entire content Copyright 2001 by Robert B. Cooper. When lifting material, please be courteous enough to credit source (i.e., "*as reported in Coop's Technology Digest for ...* "). CTD accepts no source payment for publication of information here. **Making "extra copies" for staff use without our written permission is a violation of our copyright**, whether the entire publication or portions. Reasonable "Replication Rights" are available to those who find the need to "share" contents with non-subscribers. Query to Gay Cooper at 64-9-406-0651. Our objective? "*To keep the bastards honest.*"

August 31, 2001 - ISSUE 01-08-81

-IN THIS ISSUE-

Taking apart the fluff surrounding TelstraSaturn's DTH fiasco -p. 2
Rumour only: TelstraSaturn courting Sky TV -p. 4; Speculation: Austar is broke -p. 5;
More speculation: Austar will sell down TelstraSaturn stake -p. 6;
Analysis: TelstraSaturn's flawed business plan? -p. 6; Claim: Austar says they are not out of cash -p. 8; The bottom line? Our analysis -p. 9; Superway goes under -p. 11;
NDS encryption hype does not match user reports -p. 12; Pay TV will pay for Australian racing -p. 14; Ten dumps Southern Cross -p. 14;
ABC goes "commercial" with KidsTV -p. 15; SDS will follow suit - p. 16;
Phoenix (Murdoch) in Taiwan -p. 16; ESPN/STAR expand sport service choices -p. 17;
Indonesia may abandon satellites for fibre -p. 17;
Star taking over regional Indian "language" services -p. 18;

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August 24, 2001 ISSUE 01-08 #1

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From New Zealand:

TVNZ is playing down reports that telecommunications company TelstraSaturn has pulled the plug on the two companies' multi-million dollar digital television deal. TelstraSaturn and TVNZ signed a deal last year to bring a new free to air digital service to New Zealanders by October. The plan was to provide TVNZ's digital content free to air to New Zealanders, accessible either via a digital television or through a special set-top box used by both companies. They would then also have the option of renting TelstraSaturn's over 20 channels of programming on a pay TV model similar to Sky TV's.

Officials from both companies met at TVNZ August 1 to discuss the future of the service. TVNZ says TelstraSaturn has reaffirmed its commitment to provide the necessary infrastructure to allow TVNZ to launch its free to air digital service at some time in the future. TVNZ chief executive Rick Ellis stated that TVNZ's contract with TelstraSaturn is about sharing infrastructure. This infrastructure now exists and is operational. "Some of the (August 1) media reports incorrectly state that TelstraSaturn's proposed launch of its pay television service was a joint venture with TVNZ," says Ellis. "This is not the case. TVNZ has no plans to enter the pay television market." TelstraSaturn boss Jack Matthews called his company's decision "potentially a delay or... potentially a very brief hiatus. It is potentially a cancellation if we get the other things we need, jointly, with TVNZ," he says. "It remains to be seen, but I don't think it's anything unusual for a company right at the verge of pulling the trigger and making this very long term commitment, just taking one last look and saying 'let's make sure that the reasons we did this a year ago still make sense'." Ellis says the joint venture between TVNZ and TelstraSaturn was to share resources for the development of interactive digital content and this opportunity remains unchanged by TelstraSaturn's announcement.

"TVNZ's objective is and remains to bring a genuine digital free-to-air digital television service to all New Zealanders. We have always stated that we will ultimately be on multiple platforms as they develop in New Zealand, and as open access agreements are reached," he says. TelstraSaturn and TVNZ have always said they wish to have an open access deal with Sky, Ellis says. "It is important to note that TelstraSaturn's announcement does not impact on TVNZ's ability to launch a digital free-to-air service." TV3 and TV4 screen on Sky's digital pay TV service, but agreement for broadcast of TVNZ's television channels has foundered over open access.

TelstraSaturn (also) has purchased live broadcast rights to the All Blacks tour to Ireland and Scotland later this year. If it cannot broadcast the games on the digital service, TelstraSaturn says it will ask another service to screen the tour live.

A leaked memo sent to all TelstraSaturn staff by Matthews on July 31 said the digital platform would not be launched at this time, and that the company was exploring alternative opportunities and would be focusing on its core markets of cable services and expanding in business markets. "The board of TelstraSaturn was keen to avoid unnecessary duplication of infrastructure and investment," Matthews said. "If it made sense to do it a smarter way, then TelstraSaturn should do it." The company says it is negotiating with other parties in the pay television area. A Telstra Saturn spokesperson, Quentin Bright, says while the company had the TVNZ satellite plan ready to launch,

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other opportunities have since arisen. He has confirmed the company is talking to other parties about another project in the pay television area. Prior to the announcement, TelstraSaturn was on the brink of launching its digital television platform. TelstraSaturn has the rights to live coverage of the All Blacks' end-of-season tour to Argentina, Scotland and Ireland. If it cannot broadcast the games on the digital service, TelstraSaturn says it will ask another service to screen the tour live. TVNZ has the rights to show matches delayed, and says it is keen to buy the live rights if it can.

From New Zealand:

MEDIA RELEASE FROM TVNZ (Wednesday 1 August 2001). TVNZ's digital plans remain unchanged by TelstraSaturn announcement. TVNZ Chief Executive Rick Ellis met with TelstraSaturn CEO Jack Matthews this morning to discuss the implications of this decision. TelstraSaturn has reaffirmed its commitment to provide the necessary infrastructure to allow TVNZ to launch its free to air digital service at some time in the future. Mr.. Ellis stated that TVNZ's contract with TelstraSaturn is about sharing infrastructure. This infrastructure now exists and is operational.

"Some of the (August 1) media reports incorrectly state that TelstraSaturn's proposed launch of its pay television service was a joint venture with TVNZ," said Mr.. Ellis. "This is not the case. TVNZ has no plans to enter the pay television market. "The joint venture between TVNZ and TelstraSaturn, referred to in April at the time the agreements were signed between the two companies provides for us to share resources for the development of interactive digital content. This opportunity remains unchanged by TelstraSaturn's announcement.

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From New Zealand:

Digital partner dumps TVNZ. TVNZ's plans to launch a digital television service by October are in doubt after its partner backed out. The move by Sky TV rival TelstraSaturn to pull the plug on the proposed joint venture was revealed to senior TelstraSaturn staff yesterday. TVNZ staff have not yet been told. TVNZ is left with little to offer digital customers, other than One, TV2 and Prime. It has been unable to convince TV3 and TV4 to join the service. Viewers would have needed a special set-top box to receive the service, but are now unlikely to spend the money. Instead, TVNZ may be forced to join Sky's service - an option it has so far resisted. TelstraSaturn's move is believed to have been prompted by a desire to concentrate on its telephone customers, rather than pay TV. At present, it delivers 26 channels to subscribers in Wellington and Christchurch through fibre-optic cable. Although it will continue to extend its cable service to Auckland, it is not clear whether it will still move into other centers.

The deal with TVNZ would have enabled it to cover the entire country by using space TVNZ has already bought on an Australian satellite. The collapse of the deal dashes the hopes of many sports fans of watching live coverage of the All Blacks' end-of-season tour to Scotland and Ireland. TelstraSaturn has exclusive rights to the tour, as well as the Six Nations and Heineken Cup rugby events for 2001 and 2002. Its director of customer operations, Rhoda Holmes, said last night that TVNZ would continue to offer delayed rugby coverage. Although TelstraSaturn (also holds) naming rights to Tiger Woods' golf games in New Zealand, it does not have rights to screen the games. Ms Holmes said TelstraSaturn would continue to provide call-centre support and installation services for TVNZ's digital service, if the service itself continued. TelstraSaturn has spent up to $25 million preparing for the deal. The company, which has committed $1.2 billion to extending its cable network, made the decision to abandon its joint venture with TVNZ on July 27. It is believed to be secretly courting a partnership with Sky TV. TelstraSaturn staff involved in the plans were briefed July 31. They were told the pullout would not lead to job losses.

In a memo TelstraSaturn chief executive Jack Matthews hinted that a better deal was being negotiated. TelstraSaturn is thought to be keen to allow Sky to take over its pay TV business in return for becoming Sky's telecommunications partner. Media companies are moving towards bundling together a range of services for customers, including television, Internet and phone services.

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Competitor Sky is believed to have about 422,000 pay TV customers. At the end of last year, TelstraSaturn had about 21,000 subscribers in Wellington. Telecom is likely to be less than impressed with TelstraSaturn's plans. It has already bought 12 per cent of Sky TV, partly to persuade Sky to allow it to provide telephone services for Sky customers. In the memo to staff, Mr.. Matthews claimed that canning the satellite TV plans would not wreck TVNZ's own plans. However, the decision is another blow for TVNZ chief executive Rick Ellis, who last year failed to secure a $200 million digital TV deal with British cable giant NTL. As a further insult, TVNZ may miss more than $1 million of advertising TelstraSaturn planned to put its way to publicize the launch.

From New Zealand:

TelstraSaturn has put its nationwide digital plans on ice - but has promised the All Blacks' year-endtour will still be screened. TelstraSaturn, a Wellington-based pay-TV and telecommunications company, has told TVNZ it hasn't dumped their joint deal to share digital services but wants to delay its own service while it pursues other options. However, it does put in doubt the ability of TVNZ to roll out its own service later this year. TelstraSaturn wants pay-TV rival Sky TV to be its telecommunications partner and also to have its TV services delivered together with Sky's through a single set-top box. TVNZ and TelstraSaturn signed a deal in April that provided for open access to each other's transmission networks and set-top boxes. This allowed TelstraSaturn to become a direct competitor with Sky TV by using a TVNZ satellite to broadcast its pay-TV channels nationwide. Both services were originally expected to be unveiled in the next few months. TelstraSaturn chief executive Jack Matthews said his firm wanted the pay-TV market to be "rational" with a single set-top box that multiple companies could use. Asked if the digital deal with TVNZ was still going ahead, Mr.. Matthews said: "That's a bit up in the air I suppose". "I think it will go ahead. There are a lot of things going on." He said he couldn't talk further but did say that TelstraSaturn was determined to stay in the pay-TV business. However, he said the All Blacks' games against Scotland and Ireland at the end of the year, to which it has the rights, would still be screened - either on its cable service, or it would sell them in some format to other broadcasters such as Sky. TelstraSaturn is owned as a joint venture by two Australian companies, Telstra Corporation and Austar United.

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TelstraSaturn set to court Sky TV. Telecommunications company TelstraSaturn is believed to be keen to sell its pay-television business to rival Sky TV. The company, which wants to be seen as a key player in New Zealand, is understood to have begun high-level talks with Sky executives, behind the back of its jilted partner, TVNZ. TelstraSaturn favours a trade-off with Sky that would involve exiting pay-TV in return for becoming Sky's preferred telecommunications partner. The plan is likely to cause friction at board level, with Telecom also trying to develop a relationship with Sky by buying a stake in the company.

TelstraSaturn on July 31 told staff it was pulling the plug on a joint venture with TVNZ that would have extended its 26-channel Wellington and Christchurch cable-TV service nationwide, by subleasing space TVNZ has bought on the Optus satellite. Millions of dollars are believed to have been spent on the venture, but TelstraSaturn told staff that due to "much more aggressive activity from Telecom in particular" it has decided to focus on its core markets.

In an internal memo, the company said it had been "pursuing other opportunities with various players" that would better position it in the New Zealand market and "avoid unnecessary duplication and infrastructure". TelstraSaturn said it had not yet had the chance to "fully explore" such opportunities. Industry insiders have speculated that TelstraSaturn always wanted to form a partnership with Sky, and signing a deal with TVNZ was a strategic move it hoped would force Sky to negotiate. But the decision is also likely to have been sparked by concerns that its Australian part-owner, Austar United, is struggling across the Tasman. The Australian company said yesterday that it had spent $A71 million ($87 million) more than it received from customers in the three months to June 30. If it continues at that rate, it will run out of cash by the end of next year. In March, TelstraSaturn revealed that it made an operating loss of $117 million on revenue of $127 million last year. Austar confirms that it will borrow $A150 million more from banks to help finance its New Zealand expansion plans.

"The funds will be used to get the existing businesses to a cash flow break-even point, which we expect will be in 2004," said spokesman Bruce Meagher. While TelstraSaturn intends to continue expanding its cable service to Christchurch and Auckland, it has stressed to staff that the business

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market is crucial to its success. At the end of last year, it had 32,000 residential telephone customers in Wellington, as well as 1500 clients, 21,000 pay-TV subscribers and 45,000 Internet subscribers.

But several issues remain up in the air, including how it will extract itself from the deal with TVNZ to sublease the satellite space. The legal position of three companies contracted to install the digital service - GDC, Downer Connect and Strongline - is also unclear. TelstraSaturn may be forced to compensate the companies, on top of the money it has already spent on the venture. The company is believed to have been ready to launch the service with TVNZ, and has told staff it could still go ahead if the Sky proposal falls over.

From New Zealand:

TVNZ and Sky poised to sign deal. TVNZ and Sky TV are poised to sign a deal over digital television which is likely to give TVNZ access to Sky's set-top decoders. Behind the scenes there are intense negotiations about TVNZ and digital television and the National Party claims a deal has been done. Both broadcasters admit they have been talking but TVNZ says "no agreement has been reached as yet". The speculation is such a deal would give TVNZ open access to Sky's set top decoders. Media commentator Paul Norris says open access should mean the viewer will really only need one set top box to access a variety of different programming schemes from different providers. TVNZ and Sky TV have not had a happy relationship since TVNZ sold its stake in Sky two years ago and Sky pulled TVNZ's access to rugby and cricket. Last year negotiations between the two broadcasters over a digital platform fell over and TVNZ's own digital plans are still up in the air.

The opposition (National Party) claims the government has threatened Sky with regulation if it did not negotiate. Prime Minister Helen Clark denies involvement while the Broadcasting Minister says it is no secret she has been looking at regulating the industry. "They may take it as a veiled threat, it was not intended," Marian Hobbs said. If the deal goes through the opposition claims it will leave the Rupert Murdoch-owned Sky TV with too much power.

Best face forward department. Television New Zealand said its digital TV service won't be jeopardised by the decision of its telecommunications partner, TelstraSaturn, to try to strike a deal with pay-TV rival Sky Television. TVNZ is downplaying the development and said it won't affect the state broadcaster's digital TV plans, although a previously announced October launch has been postponed until next year while it sorts out issues regarding set-top boxes. TelstraSaturn and TVNZ signed a deal late in 2000 to bring a new free to air digital service to New Zealanders by this October. The plan was to provide TVNZ's digital content free to air to New Zealanders, accessible either via a digital television or through a special set-top box used by both companies.

And the inevitable speculation that TelstraSaturn was abandoning the cable joint venture. TelstraSaturn chief executive Jack Matthews has poured cold water on speculation that half-owner Austar United Communications LTD is looking to ditch its stake in the New Zealand telco. "I have never heard or been party to any discussions that they (Austar) don't want to be involved with TelstraSaturn," Mr. Matthews said. Austar has posted a sharper than expected half-year loss, of $A196.09 million ($NZ240.8 million), compared with a loss of $A120.71 million in the prior corresponding period. Shares in the Australian pay-TV and Internet operator are wallowing in the mid-to-late A40c range. That sparked analysts' predictions that it may have to sell its New Zealand operations. But Mr.. Matthews said a sale was unlikely. He could understand market speculation during a difficult time for the telecommunications industry, but he believed Austar was not looking for a way out. "They have always been a company that takes a long-haul view at investments," he said.

Austar chief executive John Porter said TelstraSaturn LTD, its New Zealand joint venture with Aussie telco No 1 Telstra, contributed significantly to losses. Losses from associates increased to $A17.9million for the June 2001 quarter from $A11.4 million for that quarter in 2000. Mr. Porter would not answer specifically what asset sales Austar might consider. Mr. Matthews said even if Austar did sell out of TelstraSaturn, it would not be a killer blow. "We like Austar as a partner because they bring a different element to the partnership . . . but the fact of the matter is we are a standalone entity here," he said.

Mr. Matthews also said rumours that TelstraSaturn's cable-laying in Christchurch was not going to plan were wrong. "Christchurch has gone far better than the one in Wellington did." But an analyst said competitor Telecom was providing tough competition and Austar might be forced to off load its stake in TelstraSaturn.

market is crucial to its success. At the end of last year, it had 32,000 residential telephone customers in Wellington, as well as 1500 clients, 21,000 pay-TV subscribers and 45,000 Internet subscribers.

But several issues remain up in the air, including how it will extract itself from the deal with TVNZ to sublease the satellite space. The legal position of three companies contracted to install the digital service - GDC, Downer Connect and Strongline - is also unclear. TelstraSaturn may be forced to compensate the companies, on top of the money it has already spent on the venture. The company is believed to have been ready to launch the service with TVNZ, and has told staff it could still go ahead if the Sky proposal falls over.

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From Australia:

NZ exit a way out for Austar. Austar is expected to abandon its unprofitable New Zealand pay-TV joint venture and call on its parent for more funding to ensure its long-term survival. Austar's results for the June half reveal that the regional pay-TV provider is facing a severe cash crunch. Its net loss blew out to $196 million in the six months to June, 62 per cent higher than the $120 million booked a year ago. Analysts have forecast full year losses as high as $390 million as US dollar programming costs, slowing subscriber growth and high capital expenditure take their toll on its balance sheet.

If the company is unable to renegotiate its $400 million bank facility by the end of the year, it might have to repay the loan in the first quarter of next year. Austar shares fell 4.5c to 47.5c on that news. With $253 million cash on hand at the end of June, managing director Mr. John Porter said Austar had sufficient funding to keep the business afloat for 12 months. "We remain very confident appropriate funding can be obtained on a timely basis."

He said Austar was canvassing other options, including internal cost reductions, which would negate the need to raise extra funds. The company has already negotiated a reduction of $US2 per subscriber for programming bought from 50 per cent subsidiary XYZ. Selling its half share in Telstra Saturn, its capital hungry New Zealand joint venture with Telstra, would relieve some of the financial pressure on Austar. Having invested $38.6 million rolling out the New Zealand pay-TV cable network in the June half, Austar is expected to outlay as much as $100 million on the venture this year. Austar and Telstra have agreed to invest more than $NZ1 billion in TelstraSaturn over the next five years. Austar needs to raise $150 million to meet this commitment. Telstra Saturn's losses more than doubled to $65.4 million in the June half, while average revenue per subscriber fell 6 per cent. Although Austar maintains it wouldn't sell the asset in this economic environment, it is understood that Telstra, the most likely buyer, does not want to assume Austar's share of Telstra Saturn's losses.

Analysts expressed concern at the apparent lack of urgency displayed by Austar management towards resolving financing issues. In the absence of a complete restructure of the company, it is estimated that Austar will need up to $200 million fresh funding each year. Analysts believe that 81 per cent shareholder United Global Com will have to provide more funding if Austar is to stay afloat. "Between the banks and United Global Com, that's who is running this company now," said one media analyst. Given that United Global Com's objective is to be the biggest cable operator in the world outside the US, the company is expected to step in to save Austar from going broke. United Global Com is likely to inject fresh capital into Austar in the first half of next year if its operating performance improves.

"The last thing UGC want is Australia keeling over, because of the message it sends out about their business model globally," said the analyst. Austar, however, does not want to dilute its existing shareholder base by issuing more equity to United Global Com. Austar added 5,534 subscribers in the June quarter, boosting its customer base to 432,197.

A New Zealand market analyst overview.

TelstraSaturn's long term future in doubt. Dow Jones has reported a more regulated New Zealand telecommunications market, poor performance at Austar in Australia and the slow roll out of TelstraSaturn's Auckland network as reasons why TelstraSaturn is shelving its DHS service. At the same time the Australian Financial Review reported that similar problems may cause TelstraSaturn's infrastructure roll out across 65% of New Zealand to be rolled back and the sale of Austar's share in the 50-50 joint venture to Telstra as the pay television company faces pressure in its home market. Austar chief executive John Porter told the Australian Financial Review that Austar remained committed to the business but that moving Austar to a cash flow-positive situation was a priority. He said profitable growth rather than growth for growth's sake was the key. "We are focused on bringing the business to profitability as quickly as possible, whether it is through ruthless execution of its business strategy or potentially through other transactions in the marketplace. I think it (the NZ business) is worth $A1 per share to the Austar stock price. No one is going to stand up tomorrow and offer us $A1 for a share for our half, so the challenge is to continue to execute." Austar has recently reported a string of bad results. It reported negative operating cash flows of $A35 million ($NZ44 million) for the June quarter, increasing outflows for the first six months of the year to $A64 million on revenue of $A190 million. Australian Telecommunications Consultant Paul Budde said in a report

that TelstraSaturn's decision too drop the DHS joint venture with TVNZ indicated that the company was facing difficulties. The current move by TelstraSaturn to quit their national satellite service could be seen as a small victory for Telecom NZ. The satellite joint venture with TVNZ would have gone head-to-head with Sky and TV3 in a way that the company had previously avoided. TelstraSaturn already has a resale agreement for the Sky satellite product signed which has never been used. (*Coop's note: This agreement is not believed to be useful to TS in today's satellite DTH/DHS environment and was only marginal useful years ago when TS was Saturn-only and Sky was analogue terrestrial only.)* The company has in the past sought to resell Sky channels on the Saturn cable services since it began its first major expansion in Wellington and before Sky had developed its DHS service.

Telecom's 12.1 percent holding in Sky will now limit any attempt of TelstraSaturn partnering with Sky. Telecom's relationship with Sky and INL, its major shareholder, is seen as less than perfect. Both Sky and INL have viewed Telecom as being aggressive in its acquisition. However, Telecom was forced to take the shareholding to secure resale and packaging agreements because of reluctance on the part of Sky to become involved with the telecommunications company. Budde is picking recent comments from TelstraSaturn as indicative a return of Telstra's plan of focusing on the business market. Budde said TelstraSaturn's vision of a nationwide residential broadband network is fading". With the prospect of a second telecommunications infrastructure decreasing and open access requirements being introduced Sky may be dragged into regulation that will force it to allow other providers to deliver services over its DHS platform at regulated prices. Without the competitive satellite service from Television New Zealand or a signal from BCL and TV3 that digital territorial is on its way further pressure may be put on the company to provide more open access.

The Ministerial Inquiry Into Telecommunications released in October last year found Sky's conditional access systems should be specified to allow a industry forum to develop a code to prevent any foreclosure of competition. This was a lower level of regulation that did not include the price regulation that the inquiry proposed for Telecom's lines network. Mr. Budde said competition in the New Zealand communications market won't properly develop until "competition between networks" is replaced with "competition between services over networks". However neither Austar in Australia nor Clear Communications in New Zealand were ever very successful in the reseller model. Most of Austar's television and Internet products are delivered over others networks. Budde, having laid at least part of the blame on Austar's problems in its domestic market, suggests a change of strategy in New Zealand may solve its problems. This may simply create a messy debt problem as the company renegotiates banking-agreements as well long-term profitability problems similar to those of Clear Communications.

With the exception of Wellington and Christchurch suburban networks, TelstraSaturn have to-date spent a considerable amount of their money on the already heavily competitive central city areas. These networks compete for business with Telecom, Clear, United Networks and other providers. But a sale to Telstra would be unlikely to allow TelstraSaturn to continue its network roll out plans. Budde said: "Profitability is years away and the New Zealand market is small and not strategically significant for Telstra. Its partner Austar has enough financial problems of its own, so it is highly unlikely that they will be interested in deeper investments".

From Australia:

Telstra ditches pay TV plans. TELSTRA has moved to stem the flow of red ink from one of its big loss-making investments – the TelstraSaturn joint venture in New Zealand is ditching plans for a satellite pay TV service. The down sizing of TelstraSaturn, a $NZ1.2 billion ($980 million) broadband network joint venture with regional pay TV group Austar, comes as Telstra tightens the screws on capital outlays in response to a new, low-growth outlook for telecommunications services. The carrier is also under mounting pressure to rein in an estimated $240 million a year in equity accounted losses from associate companies, including $53 million from TelstraSaturn for the December 2000 half-year alone.

Austar is facing its own problems. While the company's shares have gained 2.3c to 51.3c, they are still trading near all-time lows as doubts persist about the business model. TelstraSaturn staff were told of the revised pay TV plans by internal email. The note says TelstraSaturn was ready to launch satellite pay TV to complement its cable service, but other opportunities were now being pursued to avoid "unnecessary duplication of investment and infrastructure". A source said a deal with rival pay group

Sky Network Television, 47 per cent owned by News Corp's Satellite Independent Newspapers and about 12 per cent by Telecom New Zealand, was "imminent".

"They are now gambling on this going ahead and have canceled the launch of their satellite TV service," he said. Sky is New Zealand's biggest pay TV operator, reporting almost 400,000 subscribers at the end of last year. TelstraSaturn, for its part, provides an integrated package of telecommunications services, with 21,000 pay TV subscribers, 45,000 Internet and 32,000 residential telephony customers as at last December. A TelstraSaturn spokeswoman said she could not comment on any speculation involving Sky. "But satellite pay TV was never part of our original business plan, so this decision does not reflect any decision by either shareholder to pull back from the initial plan," she said. Telstra Saturn has also encountered problems with its cable network roll out. It had been designed to pass 65 per cent of the population, concentrating on Wellington, Christchurch and Auckland. However, the same source said it was possible that the Auckland roll out might never be completed because of local council problems with overhead cabling. The satellite pay TV proposal addressed some of the problems.

Delays in the roll out triggered a technical breach in one of Telstra Saturn's banking covenants relating to achievement of a certain ratio of fibre laid to drawn debt by June 30. A syndicate of 14 banks for the $NZ900 million total facility agreed to waive its rights.

From Australia:

Austar faces new problems. Austar trod water in the June quarter, but the loss-making regional pay TV provider is expected to come under increasing pressure to sell some assets to resolve longer-term funding issues. The satellite TV broadcaster burnt through $35 million cash in the three months to June, $6 million more than the $29 million reported in the March quarter. It had $253 million cash on hand at the end of the first half, including the $201 million raised from its rights issue in May.

The group booked $94 million in customer receipts last quarter, just below the $96 million booked in March. Austar shares rose 2c to 51c. If it continues to burn cash at the current rate, analysts estimate that Austar has just 10 months left before it will have to raise further funding. The broadcaster is in discussions with its bankers to raise the extra $150 million it needs to fund its business to break even. Austar lost $319.4 million in 2000. Given Austar's strained financial position, analysts believe its bankers would demand asset sales before agreeing to lend more. TelstraSaturn, Austar's capital-hungry New Zealand joint venture with Telstra, is expected to be one of the first businesses put up for sale.

Telstra and Austar have agreed to invest more than $NZ1 billion (Au$815 million) over five years on rolling out a broadband network in New Zealand. Austar must contribute NZ50c for every $NZ1 TelstraSaturn draws down of its $NZ900 million debt facility. Austar has invested $38.6 million in TelstraSaturn so far this year. TelstraSaturn lost $98 million on revenue of $110 million in 2000. Under one scenario being touted in the market, Telstra would continue to fund the broadband roll-out in exchange for a portion of Austar's holding in Telstra Saturn. "Austar is best served by focusing on its core pay TV business," according to a media analyst. "It doesn't need to own the infrastructure." It maintains it has no plans to pull out of the NZ operation, forecast to break even in 2005. "We are committed to New Zealand," a spokesman said. "We think it's a good business and in the current market with the current valuations of telecommunications assets we would not want to sell." Austar rejected suggestions that it would come under pressure from its bankers to divest some of its under performing assets. With investors remaining risk averse in the current economic climate, Austar's chances of raising fresh equity are slim. Parent UnitedGlobalCom was forced to take up the shortfall in the recent rights issue, boosting its holding to 81 per cent.

From Australia:

Austar says raising cash is not a problem. Austar says it is confident it can negotiate a new financing facility with its bankers as the group looks to secure an additional $150 million to fund its New Zealand business plan. Its chief executive, Mr. John Porter, reports the banking consortium fronted by Citibank and JP Morgan was now in alignment with Austar over its future funding requirements. "A bank deal is going to get done. We are not that far away, and in the context of the amount of equity that has been put into this business and the assets that we have in the business, raising another $150 million is nothing," he said. "As opposed to discussing if it's going to happen, we are now discussing how it is going to happen." While he declined to give a definite date, Mr. Porter said

an announcement on the refinancing could be expected soon after the release of the group's annual results. The failure to resolve the group's new financial platform has weighed down Austar's stock price, which has nearly halved since the beginning of June. The shares fell another 4¢ to 49¢. Austar's negotiations with its bankers have been complicated by the group's New Zealand business, where it is a joint venture partner with Telstra in Telstra Saturn. The venture's network roll out requires an additional investment of at least $150 million from Austar. This has prompted speculation that the group might look to sell its interest in the joint venture to Telstra in an attempt to consolidate its trans-Tasman operations. Mr. Porter denies a sale is on the agenda, saying the New Zealand business was worth "$1 to the Austar stock price". It is understood Austar was keen to acquire the British Telecom controlled Clear Communications' assets. However, it is believed that a financial consortium involving Jump Capital and Berkshire Partners is now the front runner. It is understood Austar had about $250 million cash in the bank at June 30, and cash used in operating and investing activities was about $66 million in the second quarter, in line with spending in the previous quarter. "The likelihood of this company having a liquidity crisis is zero. That's the bottom line," Mr. Porter said.

The bottom line?

What these media reports focus on is that, (1) TelstraSaturn 50% parent Austar is once again in cash crunch jeopardy, and, (2) TelstraSaturn "might" have been in "negotiations" with competitor Sky Network and to push those negotiations along - TS called off (although perhaps not permanently) the launch of their satellite service.

Let's be more critical here. First of all, Austar is always in a cash bind and super-parent UnitedGlobalCom is as one media report correctly summarised, "The last thing UGC want is Australia keeling over, because of the message it sends out about their business model globally." Second, while it might make some sense that negotiations between TelstraSaturn and Sky had reached a stage where a "gesture" from TS would help those negotiations along, that seems like a long reach to CTD. There were many smaller "gestures" TS could have done - including announcing a one or two month "delay" in launching the satellite service.

Jack Matthews was, in fact, not in Wellington between July 27 and July 31 when the email memo was leaked to the press. He returned to Wellington the evening of the 31st from a period of sun and fun (vacation) when he was advised by a concerned top management individual that newspapers were breaking the story the next day. Matthews absence from Wellington during a period when there were supposed to be "top level negotiations ongoing" between TS and Sky seems an unlikely scenario. More likely, CTD believes, is there were other factors not uncovered by the general media which would explain the unusual way of leaving TVNZ holding the bag.

We know of two such factors and at this stage have no preference for which of the two might be closer to the truth than those already offered by the populist media.

(1) **Rationalisation**. Telstra's 50-25-25 corporate "partnership" with News Corp and Packer for the Foxtel cable and satellite service in Australia has been drifting for two years. Switching to digital from analogue (for the cable) is inevitable but numerous obstacles have prevented it to date. At the same time, Singapore Tel has acquired controlling interest in Foxtel competitor Optus, and Singapore Tel has shown no particular interest in retaining the cable TV (and limited satellite DTH) ownership now held by Optus. A shake-out of the two competing services (Foxtel versus Optus) is inevitable. The change in ownership at Optus can speed that along.

Consider this scenario. Telstra suddenly believes Foxtel will end up with the Optus cable network, and that will make their only competitor go away. Someone at the top of Foxtel/Telstra asks the question: "What is it we are doing today which we would not be doing if we were to take over the Optus cable and satellite holdings?" Several projects make the list - the TelstraSaturn joint venture in New Zealand is close to the top.

"OK - cut back the project, slow it way down, until we see how this Optus deal works out."

If Telstra decided it wanted out of TelstraSaturn, that would leave Austar all alone with UGC in charge.

(2) **A very dirty problem**. In Wellington, it is said "Saturn took advantage of a loop hole in local rules which allowed it to string coaxial and fibre cables on existing (power company and city owned) poles." In Christchurch, TelstraSaturn has relied on a 1996 "pole attachment agreement" negotiated with pole owner(s) there. That agreement grants TelstraSaturn the right to select which poles it wishes to "contact" (connect their cables to), and establishes a charge per pole per year which TS will be paying to "rent/lease" that attachment (space).

A similar pole attachment agreement in Auckland was also negotiated in 1996. It specified a per pole fee in the region of $20 per year, gives TS the right to select which utility poles it will attach to. In a typical kilometre of suburban Auckland there are 21 poles. This means TS would pay 21 x $20 or $420 per kilometre per year.

In that kilometre its cable lines would pass some quantity of residential units - 131 is a suitable average. Thus TS would pay $3.20 per residence per year to have their coaxial + fibre system in the street in front of residences.

When this agreement was negotiated in 1996, Auckland power utility Mercury was feeling pretty comfortable. So comfortable that *present* Auckland power utility Vector says they were mislead - bamboozled by the sharpies from the cable company.

"Imagine being able to sit out there in the street within drop-cable reach of a potential home user for $0.27 per month. That is highway robbery and Vector is not going to honour the 1996 agreement without a (court) fight."

Which is where TS and Vector are today. In court. After attempts to negotiate the differences in June which ended with Jack Matthews advising his Vector counterpart, "See you in court!"

And that gets us to what point? Well, although TelstraSaturn has been burying fibre optic cables along major streets for 18 months, the real detailed work that involves stringing cables in front of residences and offices has yet to begin. TS has some (but not all) of its main wires in place - essentially none of its secondary customer circuits. To get from where they are today to where they can truly serve the Auckland market will require three to four more years of work.

To complicate the situation even more for TS, stringing wires above ground requires Resource Management Consent for each cable installed on poles. Tens of thousands of poles - tens of thousands of RMA applications, all subject to citizen comment and protest. The likelihood that TS will get through this double whammy is not good.

If Vector succeeds in keeping TS off of the poles, is told it does not have to honour the 1996 pole attachment agreement, TS faces a significant new hurdle. Vector's engineers believe TS will have to expend not less than an additional NZ$200 million if they are forced underground and not allowed on Vector poles. That's the low ball estimate - it could go up to 3 times that number. Paying $3.27 per year to be in front of a residence is certainly more attractive than spending $190 per linear metre to bury the cable plant in front of the same residence. We'll do the math for you - you could pay $3.27 for more than 58 years before spending $190 for a <u>single metre</u> of burial.

TelstraSaturn is not budgeted for underground in Auckland suburbs. Even Vector which has an undergrounding project of its own underway expects to spend 40 years converting its existing overhead lines to below ground. And if you were on TelstraSaturn's Board of Directors, would you vote to continue the satellite DTH project and a September 1 start date with this uncertainty hanging out there?

And that is but one more reason why the TS DTH service might have canceled. As the TelstraSaturn spokes lady said:

> *"Satellite pay TV was never part of our original business plan, so this decision does not reflect any decision by any stockholder to pull back from the initial plan."*

Explain that to TVNZ.

And oh - by the way:

1) The space segment on satellite to have been used by TS+TVNZ - was indeed contracted for by TVNZ;

2) TSL is responsible to TVNZ for "its share" of that two transponder rental over a seven year term;

3) TVNZ says, "the TSL contract is air tight - only a close down of TSL would jeopardise the TVNZ commitment and even then, there are the parent companies."

4) If TSL does not go ahead, they have the contractural right to offload their (1.5 transponder) commitment - but only with TVNZ permission. And even if they found a sub-leasor, TSL would remain financially responsible to TVNZ.

So there you have it. What do *you think* really caused the shutdown of TSL satellite?

Semi-related reports

Some will recall the NZ$75 million-plus invested by Telecom (NZ) into cable television system installations in both Auckland and Wellington (CTD #43 p. 8). Two interesting reports since the last CTD that relate to this aborted cable roll out:

1) **On August 14 Telecom announced** it would "decommission its fibre optic + coaxial cable network" in Auckland. The system has been left intact and operational which in turn allowed Asian TV distributor Gold TV to operate and serve homes in Howick, Pakuranga, Glenfield, Chatswood and Birkenhead. The only other use for the Telecom system presently is a small MATV (they call it CATV) trial network installed by Sky which serves a small subdivision.

2) **Meanwhile in Wellington**, where Telecom had installed the majority of its cables overhead (not unlike Saturn of TelstraSaturn), public outcry against the physical blight of cables suspended from poles has finally pushed Telecom into action. The telephone company has announced it will spend NZ$1m to take down a reported 170km of cables strung from poles within Wellington City and outward to the suburb of Pinehaven.

And the politics. Telcom insists it is under no legal obligation to remove the "ugly black cables" (term commonly used in Wellington media to describe the wires), it is doing so in response to ratepayer concerns. Now the real politics. A coalition of Wellington ratepayer associations presently has TelstraSaturn up before the Environment Court demanding that TelstraSaturn also remove (bury) their existing overhead cables. TelstraSaturn has put a significant dent in Telecom's Wellington business and if Telecom can spend NZ$1m to gain political points against TelstraSaturn, and, make a stronger case for TelstraSaturn to take down (bury) its own cables - well, *it is good politics*. TelstraSaturn has told the Environment Court the cables are on poles legally, and if they are forced to take them down, "*there is a likelihood TelstraSaturn would be forced out of business in Wellington.*" For NZ$1m in labour to remove 170km of old, unused cables, Telecom can hurry that eventuality along - a pretty small investment to tighten the screws on a competitor.

And do you still wonder why TelstraSaturn terminated its satellite DTH plans?

And unrelated but hardly a good sign

It was 1994 when a small, independent Network Operator calling itself Superway incorporated and began planning for a fibre + coax underground network on Auckland's North Shore. When Taupo's original cable TV operator went to the wall and was forced to sell assets at a public auction (CTD 45, p. 04), Superway purchased tens of kilometres of Taupo .540 (inch) aluminium jacketed coaxial cable for approximately 25 cents on the dollar. This cable would become the main burial tool for the new firm in the Wairau Valley area.

Superway managed to get a few kilometres of cable into the ground on Ellice Road, and through suppliers such as Ericsson acquired equipment that allowed it to provide wideband (high speed) point to point connections for commercial clients in the area. Perhaps as much as NZ$3 million was invested by the firm's shareholders.

During August, a creditor claiming it is owed $42,000 by the firm petitioned the High Court to liquidate Superway. Media reports also claim Ericsson had the week prior to the petition filing repossessed switching equipment, essentially shutting down Superway.

Not all that glitters is gold at NDS

One might believe in reading the following that the NDS segment of News Corp was riding the crest of a wave lined with gold.

News Corp's NDS profits ride pay-TV surge. NDS, the pay-TV systems developer owned by News Corp, rode a surge in global pay TV subscribers to post a 69 percent jump in full-year operating profit but showed signs of slowdown in the final quarter. News Digital Systems (NDS) Chief Executive Abe Peled said the UK-based company was nevertheless well on track to reach its target of 25-30 percent operating profit growth in the coming years and was on the hunt for further acquisitions. Rupert Murdoch's vision to extend interactive TV around the world is expected to boost NDS' fortunes but the media mogul has been distracted recently by lengthy talks to bring US satellite TV leader DirecTV into his News Corp empire. NDS, part of News Corp's Sky Global satellite TV network, provides software for Murdoch's other global satellite TV operations including Britain's leading pay-TV operator. However, NDS is increasingly drawing customers from outside and News Corp now accounts for only 40 percent of sales. Indeed, NDS has separately won the DirecTV account across the United States and Latin America -- a move which would make a deal between News Corp and DirecTV easier. But uncertainly over DirecTV's future has capped NDS' stock and the outlook clouded further on Monday as a rival bidder, Echostar, emerged. NDS has a total market value of around $2.0 billion but its shares are only lightly traded with the 20 percent on the market held largely by large funds. NDS reported a 28 percent rise in fourth quarter operating profit to 11.9 million pounds ($16.9 million), taking the full-year figure to 25.8 million pounds. Conditional access revenues, which make up more than 60 percent of the total, saw a small fall in the last quarter as smart card volumes declined.

The "local connection". NDS encryption is used by Sky Network NZ, Star TV Hong Kong and is scheduled for introduction at Foxtel Australia before 2003 (provided Foxtel partners Packer, Telstra and News Corp can agree). Keep that in mind as you continue.

Pirates target Sky Chile. The success of Sky, which saw subscriptions rise over 145 percent from 1999 to 2000, has led to a wave of pirates who now cost the company in Chile an estimated $8 million a year, said Sky Chile president Alvaro Rudolphy in an interview with Chilean paper El Mercurio. Pirates are using several techniques to access the expensive satellite service which often costs $50 per month. In some cases they sell modified computer cards that allow for a fuller range of services that could include both the Premium signals in Chile and in some cases a wide host of signals sent by Sky from Miami. Prices range from $50 to $500 for the entire package. Both Sky and competitor VTR (DirectTV) have recently decided to change all the chips in Chile which should allow the companies to disconnect illegal hookups.

What is of interest here is that the NDS encryption system, previously believed to be impenetrable, is in fact compromised in Chile. The encryption supplier is typically bound to "make good" any hacks of its system, required by contract to spend whatever it takes to cancel the pirates out of action. These expenditures will of course have a direct bottom line impact on the next reporting period for NDS. And it gets worse.

DirecTV hits out against pirates. DirecTV is striking another blow in the battle to stop illegal use of its service. The company is preparing to sue and seek punitive damages from individuals who access DirecTV's broadcast programming signal through illegal access cards purchased from hackers. The company's campaign includes mailing strongly worded letters to an estimated 100,000 people DirecTV suspects of illegally accessing its service. The first batch was mailed in June. The list of individuals targeted by the letters was compiled from records the company seized from hackers or companies DirecTV has sued. A sample letter obtained by The Associated Press warns a person that to gain illegal access to DirecTV's programming violates federal and state laws and subjects the user to statutory damages of up to $10,000 per violation. The letter allows the end user to escape prosecution if he or she agrees to immediately surrender all equipment used to illegally access DirecTV's signal, never again purchase such devices, buy a one-year contract to legally receive the satellite signal, pay $500 in restitution to DirecTV and provide the company with information on how the pirate equipment was purchased.

There are two important bits of information here:

1) NDS's much complimented and admired pay TV encryption system is significantly compromised, something it previously boasted could not be done. The safety of the NDS (Videoguard) system has been a powerful tool in selling the system to pay TV providers

world wide. And NDS will be spending more of its revenue to plug these breaks in its security than in the past, directly affecting future profitability.

2) The NDS system, unlike the chief competitor Irdeto, requires a smater-smart card to operate. Irdeto actually transmits in the satellite data stream the "keys" which unlock the encryption. NDS transmits instructions to the keys which are themselves held in the "smarter" smart card. In cracking NDS, pirates have now opened what is technically a much more vulnerable leak to repair and in the past the only way to repair massive hacks has been to supply newly coded replacement smarter smart cards to the pay TV providers. Which in turn causes the pay-TV provider to have to somehow get all existing cards in the universe changed out in favour of the newer versions. Irdeto wins this one because although their keys are transmitted through the air and can be intercepted by savvy hackers using home PCs lashed to their satellite receivers, at least the cards themselves do not have to be physically replaced.

The publicity given to DirecTV's piracy problems was not overlooked by its chief competitor Echostar.

Echostar blames DirecTV for its piracy problem. EchoStar Communications Corp chief Charlie Ergen lays the blame for the satellite-television industry's piracy problem at the feet of rival DirecTV. Ergen questioned the wisdom of his rival's sales programs and accused it of slow enforcement efforts. In particular, Ergen cited a DirecTV sales program under which a national retailer sells DirecTV satellite systems for a low price without requiring an appointment for a technician to install the equipment or a commitment to order DirecTV programming for a set period. Such a program is thought to be ripe for piracy because it allows people to buy DirecTV equipment cheap, equip it with a black-market "smart card" for unscrambling DirecTV's satellite signal and thus bypass the process of paying for DirecTV's programming. Analysts predict piracy will cost the satellite-TV industry nearly $300 million in lost revenue this year. DirecTV executives said that they intend to alter certain retailer sales programs to require more commitments from customers, such as mandating a credit card number with every equipment sale. EchoStar often leases its satellite equipment to customers for little upfront cost, but requires those customers to commit to buying a year of programming and provide a credit-card number to back it up. Also, EchoStar retains the right to retrieve its equipment if a customer stops paying. Ergen criticised DirecTV for not swapping out the smart cards in its customers' satellite receiver boxes more frequently. DirecTV has not conducted a broad swap of its customers' smart cards since 1997, though it began installing a new model of smart card in its new receiver boxes in 1999. In a separate press conference, DirecTV officials waved off Ergen's comments, saying that DirecTV has made fighting piracy a top priority and launched numerous programs to thwart the practice. Market research firm the Carmel Group estimates that 500,000 to 1 million satellite-TV systems will be pirated in the United States this year, costing operators $292 million in revenue.

If the Carmel Group's estimate of up to 1 million illegal, pirated DirecTV systems is accurate, that amounts to just under 10% of their total paying subscriber base. A similar percentage in New Zealand would be 40,000 piracy supplied homes. Closer to home? If Chile and the USA hackers have broken NDS there, what about the integrity of the New Zealand NDS encryption?

And - less we believe this to be only a NDS problem and only in isolated spots, this published concern:

Regional Group Raises Concern Over Piracy. The Cable & Satellite Broadcasting Association of Asia (CASBAA) is concerned about the weakness of intellectual property rights (IPR) protection in Thailand. Citing the 150,000 pay TV homes that don't actually pay for their pay TV, CASBAA told the government that it must take a more proactive stand against piracy. It pointed out that anti-piracy measures could be as simple as adding a clause to annual licensing conditions insisting that local cable operators provide proof that they hold legally binding contracts to distribute individual channels. If a cable operator is unable to demonstrate a contractual relationship with rights owners, it would not have its license renewed. The anti-piracy roundtable drew representatives from AOL Time Warner, Star Group, Discovery Channel, Turner Broadcasting, Hong Kong Cable, UBC, Astro, Irdeto Access, NDS and the Motion Picture Association.

Australia's programming costs grow

Horse and dog racing is a vital industry in Australia and the average Australian spends more of his or her disposable income on gambling each year than any other nationality in the world. In New Zealand, gambling is of similar importance as an industry. However, there seems to be a persuasive difference between the status of the gambling system operators in the two countries. Consider the following.

Pay TV lines up for racing. Foxtel and Optus Television have reached an in-principle agreement in which they are expected to pay millions a year to the NSW TAB for access to its Sky Racing channel. But the regional pay TV group Austar is holding out, sparking a dispute which is headed for the courts. Sky Racing has exercised an option to place the channel on a tier package rather than the current basic service. That would have forced consumers to pay up to $15 for the channel and may have prompted those who subscribe only for the racing channel to disconnect. Consequently, Foxtel and Optus have agreed to make undisclosed payments to Sky so the channel can remain in their basic packages. Austar and Sky Racing are in dispute as Austar does not believe Sky has exercised its option validly. Nevertheless, Austar continues to receive the channel. Negotiations over whether to pay for the channel have continued throughout the year. The pay TV companies argue that charging consumers would reduce Sky's viewing numbers. NSW TAB chief executive Warren Wilson said the in-principle agreement had been reached but negotiations were continuing on the provision of interactive pay TV services. There are two parts to those negotiations. The first relates to the pay TV companies collecting the bets on Sky Racing's behalf, for which they would receive a commission. The other relates to extra interactive services Sky Racing could provide and whether it charged for those upfront or entered a revenue-sharing deal with the pay TV networks. Mr. Wilson said Sky Racing already offered betting on 27 sports and those services could be incorporated into pay TV. The decision by Foxtel and Optus to pay for the channel is expected to enhance Sky Racing's finances substantially. In 2000 it achieved earnings before interest and tax of $17.4 million on revenue of $86.4 million, all of which was earned from broadcasting its signal to pubs, clubs and totes. Some have suggested the pay TV companies are paying a combined $12 million a year but this was conditional on their being able to share betting revenues. Interactive services can only be provided on Foxtel if it digitises its network but Optus is already trialling interactive services. Mr. Wilson expects a final agreement to be reached within eight to 12 weeks. A Foxtel spokesman was unavailable and an Optus spokeswoman would not comment, saying any payments were commercially confidential.

And CanWest shows signs of more corporate activity.

Ten dumps stake in Southern Cross, eyes CanWest NZ. Ten Network has dumped its 14.4 per cent stake in regional affiliate Southern Cross Broadcasting in a possible precursor to acquiring CanWest's New Zealand television and radio assets. Stockbroker Macquarie was offering Ten Group's 7.8 million Southern Cross shares to institutions in an auction that Ten hopes will raise about $95 million. Based on the bottom end of the indicative price range of $11.75 and a recent close of $12.39, Ten stands to receive between $91.65 million and $96.6 million for its holding. Market sources expected the bookbuild for the Southern Cross shares to close at $12. This is almost triple Ten's average entry price of $4.25 and a 3 per cent discount to the price at which Southern Cross has recently traded. A spokesman for Ten said the company was not in a position to comment on the sale. It is understood, however, that Ten decided to sell its stake in Southern Cross to increase its financial flexibility ahead of future acquisitions. Sources speculated that Ten could be cashing up to finally make the long-mooted play for CanWest Global Communications' television and radio assets in New Zealand. CanWest holds a 57.5 per cent economic interest in Ten. The Canadian media company also owns two television stations in New Zealand and the main commercial radio network. It is estimated that Ten would have to pay about $150 million to acquire the Kiwi businesses. Ten, however, is expected to focus on improving the performance of outdoor advertising business Eye Corp, its last acquisition, in the short term. Ten paid $189 million for a 60 per cent stake in the outdoor advertising business last December. Crippled by inventory and management problems at a time when the advertising market is in decline, Eye Corp has failed to meet original projections of $130 million revenue and $40 million earnings before interest, tax, depreciation and amortisation in its first year of operation. Eye Corp is now not expected to achieve those forecasts until 2003 at the earliest. Ten has held an interest in Southern Cross since 1994. Institutional investors approached about the bookbuild

were told that Ten no longer considered the Southern Cross stake "strategic". Southern Cross managing director Mr.. Tony Bell said Ten's decision to sell had been prompted by Southern Cross's $217 million takeover of Telecasters Australia. "With the consolidation of Southern Cross and Telecasters Australia they no longer place the same strategic importance on having a shareholding," said Mr.. Bell. Southern Cross stock was worth $10.50 when it bid one share for each Telecasters share in early May. The timing of Ten's sale is seen as opportunistic, given that Southern Cross shares hit a record high of $13.60 in the aftermath of the Telecasters takeover. Southern Cross owns television and radio stations around Australia. Following the acquisition of Telecasters, Southern Cross's television assets include Ten affiliates in Victoria, NSW and Queensland. In March it added to its stable of radio interests with the $90 million purchase of the 2UE, 4BC and Sky Radio stations from the Lamb family.

Meanwhile a new player in the pay-TV programming world in Australia has emerged. It is the Government owned broadcaster ABC.

On August 1, Australia's first exclusively digital television channel, ABC Kids, decided to challenge pay-TV favourites such as Nickelodeon and the Disney Channel. Available at the outset only to pay-TV subscribers, ABC Kids will run from 06:00 to 18:00, seven days a week. ABC Kids will soon be available in regional areas as well, via Austar. Another digital channel, Fly, aimed at older teens and early 20s, is still under development and is expected to be launched later this year.

Not everyone is positive about the plan.

Challenge to ABC's digital TV. PAY-TV children's channel Nickelodeon has accused the ABC of unfair competition and entering the pay-TV market by stealth, in a stinging response to the launch of the public broadcaster's first digital TV channel. Nickelodeon Australia general manager Ian Fairweather said the ABC was "throwing little tantrums" and "blowing hollow trumpets" by criticising the level of US children's programs on Australian television. Mr. Fairweather also said Nickelodeon would investigate whether it can withdraw its programs, including Catdog and Hey Arnold, from Australia's first digital TV channel ABCKids. But the ABC's head of multi-channelling, Ian Carroll, said the ABC respected, and had bought, programs produced by Nickelodeon. "We do not want to get into a tussle with them, but the fact remains that however good these international companies are, there is a need in this country for storytelling and values from an Australian perspective, and there is a danger we are going to lose that," Mr. Carroll said.

"I suspect that the ABC under Mr. Shier just wants lots more audience numbers. The ABC, having failed in this (pay-TV) business before, is now clawing its way back," Mr. Fairweather said. "I would be very happy to have a competitor if it was the ABC doing what they ought to be doing. But they should stick to their digital TV platform and not get into pay-TV." Mr. Carroll rejected the accusation that the ABC wanted a permanent home on pay-TV. He said the deal for Austar and Optus to carry ABC digital channels was only a "transitional" arrangement until enough consumers gain access to the digital TV signal. But digital TV sets are not available in Australia yet, eight months after the start-date of January 1, and only a few thousand set-top boxes that convert the digital signal for existing TVs have been sold. The ABC has therefore struck a deal with two of Australia's three pay-TV networks, so that at least some viewers will be able to watch ABCKids and the youth channel ABCFly due to be launched by Christmas. Both ABC digital TV channels will be carried on the Optus and Austar pay-TV services, at no cost to either the ABC or the pay-TV groups. The primary ABC service will be screened on channel 2 in the Austar channel line-up and will feature a new national news feed. ABCKids will be carried on channel 14 as part of Austar's family line up. There are over 350,000 households which will receive the ABC through the Austar satellite or cable service. In addition, Austar believes that there are tens of thousands more homes which cannot receive or have poor quality terrestrial television. This agreement will enable them to receive a clear ABC signal if they subscribe to the Austar satellite service. The services will be supplied to Austar at no cost and will be available to customers at no additional charge, beginning on 1 November 2001. Bruce Mann, Managing Director of Austar Entertainment said, "This is great news for Austar customers and others in regional Australia who will be able to receive an excellent quality ABC signal and be among the first to experience the new ABCKids Channel. We know that for many Australians living outside the major

centres television reception can be a major issue. You do not have to be far out of town to find your reception affected by topography or lack of signal strength. The satellite provides a reliable quality signal for the vast majority of homes throughout the country," said Mr. Mann.

At the ABCKids launch, Mr. Shier said the channel was needed to counteract the influx of US-owned, US-produced programs and TV channels. Mr. Shier did not name any channels, but it was a clear reference to Nickelodeon Australia, ultimately owned by the US Viacom media group, as well as the Cartoon Network, the Disney Network and commercial free-to-air stations. Mr. Fairweather said the ABC should not be using taxpayers' money to compete with pay-TV operators.

ABCKids is showing many programs from the US and other countries, including shows from Nickelodeon, as well as repeats of its own locally produced shows such as Bananas in Pyjamas. The pay-TV industry has circulated figures claiming nearly 80 per cent of ABCKids programs are from overseas, a fact the ABC's Mr. Carroll agreed with yesterday. But Mr. Carroll said 20 per cent Australian content was a good figure and the ABC hoped to achieve 30 per cent - on all its channels - if it won more government funding.

The "alternate" Government owned service, SBS, apparently believes digital offers them new programming opportunities as well.

SBS to run digital TV for ethnic teenagers. SBS will launch a digital television channel for teenagers from multicultural backgrounds, arguing their special viewing needs have been neglected. Just days after the ABC started broadcasting on its new digital channel, ABC Kids, its fellow public broadcaster, SBS, has revealed its plans for the new service channel. It is negotiating with pay-TV operators Foxtel and Optus to carry the channel, which would give it a much wider audience reach than only broadcasting in digital format. ABC Kids can be viewed on Optus, with Austar to shortly follow. Few Australians have the set-top boxes needed to view digital television (Ed's note: fewer than 2,500 at last count). While ABC Kids targets young children, SBS managing director Mr. Nigel Milan said his new channel would attract young people with multicultural backgrounds, from their early teens to early 20s.

"Often they face a whole range of issues," Mr. Milan said. "A lot of them are in a mixed marriage - in terms of mixed racial marriages - and there's intergenerational cultural issues." He said the channel would appeal to teens who might have lost their parents' first language, but were still interested in their cultural backgrounds. "Mum and Dad left Poland in the '50s and their cultural mindset is what Poland was like then. Of course, had they stayed in the same country they would have changed with the times, but often the way their kids are disciplined, and their parents' expectations, were of the old country. So there are social issues there." Even without extra Government funding, Mr. Milan hopes to launch the channel in the first half of next year. Programs would be akin to the SBS's interactive issue-based Web site, Whatever, and "off-beat" youth programs like the music show Alchemy. Younger SBS staff and some "outsiders" had their heads down developing program ideas for the channel, Mr. Milan said. "The primary function will be a completely new approach. Whether that involves a re-use of some material on the existing channel, I wouldn't want to call just yet. It's more likely that we would be utilising product that we are using on the Web."

Although market penetration of digital was very low, Mr. Milan said he was reluctant to divert resources from existing "mainstream brands and projects". The ABC has its own plans for a second youth digital channel this year. But just how many households are equipped with digital technology, launched in Australia at the beginning of the year, is questionable. Manufacturers such as Thomson Multimedia estimate at least 10,000 set-top boxes, which cost $699, have been distributed. Those on the broadcasting side of digital, however, say such figures are inflated. The ABC's head of digital TV, Mr. Ian Carroll, did not expect digital television to "make major inroads" for some time, but added: "In a decade we won't be talking about digital - it will just be television, and people will change to digital as they changed to TV. "At what point ... is [it] sufficiently available worldwide to bring the prices down to the point where digital is only a limited increase on what you pay for analog?"

And the most recent programming and carriage deals in our Asian neighbourhood.

Phoenix gets license in Taiwan. Hong Kong-based Phoenix Satellite Television said it should start airing programs in Taiwan this in August under a license from Taiwan's broadcast authorities. Phoenix is a sister company of Rupert Murdoch's Star TV and shares the same satellite (AsiaSat 3S) for broadcasting TV programs throughout Asia. In mainland China, Phoenix beams three popular channels

in Mandarin: the Chinese Channel, Movies Channel and CNE Channel. With the new license, Phoenix believes it could reach about 41 million households in China, eight million of which are in the southern Guangdong province.

The announcement comes on the wake of moves by China's State Administration of Radio, Film & Television (SARFT) to place foreign satellite TV channels under its administration for unified release by one central platform. SARFT wants to move all foreign satellite TV operators to one transmission platform for easier administration. Phoenix dismissed reports in Taiwan's media that say it will be hurt by China's plan to bring all satellite television channels under a single broadcasting platform. It said the SARFT plan has yet to be finalized and that it is too early to speculate about proposal's impact.

SARFT intends to charge fees amounting to US$400,000 per channel fees under its planned consolidated broadcasting platform. Phoenix CEO Liu Changle, a retired general in China's People's Liberation Army, considers the amount expensive when compared with current fees of US$20,000 per channel. Phoenix said SARFT through its agent, China International TV Corporation (CITV), began discussing with foreign satellite TV operators the enforcement of a unified platform for satellite TV broadcasting two weeks ago. SARFT is widely expected to issue a proposal regarding the implementation of the unified platform plan by October.

ESPN Star Sports splits Asian telecast beam. The sports television juggernaut rolls on. On 15 August 2001, ESPN STAR Sports (ESS) broadcaster launched two new services - Star Sports Southeast Asia and Star Sports Asia. The channels - an outcome of a repackaging exercise of its Star Sports service will take the number of feeds it has in Asia to eight. Southeast Asian sports fans earlier shared a Star Sports feed with their North Asian counterparts, which carried a combination of English and Mandarin commentary, graphics, presentation and programming. With the introduction of the new feed, the service has been split, to better cater to the specific sports and language preferences of the two regions. The presentation, graphics and packaging of the televised sports will reflect these changes. Star Sports Southeast Asia will continue as an encrypted service broadcasting 24-hours-a-day and seven-days-a-week. It is targeted at the Southeast Asian viewer and incorporates his/her viewing habits and preferences which includes soccer, Formula One motor racing, tennis and golf programming. The service will be available Asia-wide in English.

Star Sports Asia will be a free-to-air service, but will have programming around basketball, billiards/ pool/snooker, baseball and bowling, which are popular among North Asian sports fans. Star Sports Asia will be available in China and Chinese Taipei, broadcast in Mandarin. "This is part of our on-going customisation strategy, designed to bring our brands closer to our viewers," says ESS managing director Rik Dovey. "Localisation sends the message that we are listening and catering to viewership needs. Content is tailored to the culture, language and viewing habits of the region. Audiences want relevant content and familiarity." Dovey adds that the two new feeds will function as even more efficient media for advertisers wanting to target specific audiences. "We have already done this in India and Taiwan and the returns in respect of brand equity and consumer loyalty are very apparent. Viewers get to see more of what they want, platforms are better able to sell our channel and advertisers can target their audience more efficiently, eliminating wastage It is a win-win situation for viewers, platform operators and advertisers," he says.

If first you do not succeed, try-try again. Indonesia, a pioneer in domestic satellites, has experienced a run of bad luck with the last three multi-hundred-million dollar birds. One has failed completely, two more have degenerated into partially (less than 50%) usable after 18-24 months of service. Well, if satellites don't work for you ...

Indonesia's Telkom to replace satellite with fibre-optic cables. PT Telkom plans to replace its satellite network with fibre optic cables by 2010 to meet the growing demand for data transmission. The company, Indonesia's telecoms monopoly, said that satellite was not ideal because of time delays as long as 800 milliseconds compared to fibre optics time delay of 400 milliseconds maximum. It believes that fibre optic technology would ultimately be cheaper despite the initial high cost. Telkom said it is spending US$179.4 million in 2001 to upgrade its infrastructure. Parts of Sumatra, Kalimantan and Java had already been upgraded with fibre optic technology. Demand for data transmission is expected to greatly increase and the need for seamless transmission will become more and more important. Telkom plans to link major Indonesian islands with fiber-optic cables to meet growing demand for seamless data transmission.

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From the what the Hell were they thinking column. Fijian TV Dumps Beeb For China. A decision by Fiji's television channel to dump BBC World Service programming and replace it with cheaper Chinese television has angered viewers. The Fiji Times reports viewers are disappointed, angry and highly critical of the decision. Ten hours of BBC programming has been replaced by Chinese state television, CCTV, broadcast from Beijing. One letter writer to the Fiji Times said "*Fiji TV and the governments should unplug CCTV because it fails entirely to serve media demands in Fiji*". Fiji TV has defended its action by saying the BBC was too expensive. The programme director, Richard Broadbridge, says China TV will not be phased out but there may be a programme mix with some Australian TV by December. Late in July, the US State Department protested to China TV over its censoring of an interview with the visiting secretary of state, Colin Powell, which Chinese authorities had assured Powell would be telecast without editing prior to the event..

STAR set to take over Vijay TV. A year after turning its flagship channel from English to Hindi and grabbing the top slot in the Indian cable TV market, Rupert Murdoch's STAR Television is plunging into the nation's fast-growing regional language market. STAR is taking control of Tamil language satellite broadcaster Vijay TV in league with Bombay- based content provider UTV to take aim at a leading southern Indian market, an industry source told Reuters. STAR and UTV are expected to announce details of the deal at a news conference in Madras on Thursday, the source said. Vijay TV, which is mainly watched in Tamil Nadu, is a laggard in the state's market, which is dominated by local player Sun TV, which consolidated on its early start. Murdoch's News Corp has a 12 percent stake in UTV, which has proved to be a strategic ally for STAR in one of its fastest growing markets. India has about 35 million cable TV homes. The takeover of Vijay TV will be done through a joint venture in which UTV will hold a majority stake, the source said. Officials from STAR India had earlier said the company was keen to tap into the vast potential of the regional language television market. Regional language channels have mushroomed over the past two years in India, where some 16 regional languages are spoken outside of the main Hindi-speaking heartland in the north and central parts of the country. Foreign broadcasters cannot hold more than 20 percent in Indian companies that beam their signals from Indian soil. Some companies target the Indian market by beaming their broadcasts from alternative centres, such as Singapore.

HOW late is TOO late?

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• - Some sessions close for registration September 1, others September 10.

From the what the Hell were they thinking column. Fijian TV Dumps Beeb For China. A decision by Fiji's television channel to dump BBC World Service programming and replace it with cheaper Chinese television has angered viewers. The Fiji Times reports viewers are disappointed, angry and highly critical of the decision. Ten hours of BBC programming has been replaced by Chinese state television, CCTV, broadcast from Beijing. One letter writer to the Fiji Times said "Fiji TV and the government should unplug CCTV because it fails entirely to serve media demands in Fiji". Fiji TV has defended its action by saying the BBC was too expensive. The programme director, Richard Broadbridge, says China TV will not be phased out but there may be a programme mix with some Australian TV by December. Late in July, the US State Department protested to China TV over its censoring of an interview with the visiting secretary of state, Colin Powell, which Chinese authorities had assured Powell would be telecast without editing prior to the event.

STAR set to take over Vijay TV. A year after turning its flagship channel from English to Hindi and grabbing the top slot in the Indian cable TV market, Rupert Murdoch's STAR Television is plunging into the nation's fast-growing regional language market. STAR is taking control of Tamil language satellite broadcaster Vijay TV in league with Bombay- based content provider UTV to take aim at a leading southern Indian market, an industry source told Reuters. STAR and UTV are expected to announce details of the deal at a news conference in Madras on Thursday, the source said. Vijay TV, which is mainly watched in Tamil-Nadu, is a laggard in the state's market, which is dominated by local player Sun TV, which consolidated on its early start. Murdoch's News Corp has a 12 percent stake in UTV, which has proved to be a strategic ally for STAR in one of its fastest growing markets. India has about 35 million cable TV homes. The takeover of Vijay TV will be done through a joint venture in which UTV will hold a majority stake, the source said. Officials from STAR India had earlier said the company was keen to tap into the vast potential of the regional language television market. Regional language channels have mushroomed over the past two years in India, where some 16 regional languages are spoken outside of the main Hindi-speaking heartland in the north and central parts of the country. Foreign broadcasters cannot hold more than 20 percent in Indian companies that beam their signals from Indian soil. Some companies target the Indian market by beaming their broadcasts from alternative centres, such as Singapore.

HOW late is TOO late?

Registrants from Sweden, Italy, UK, Egypt, Hong Kong, China, Papua New Guinea, Philippines, Fiji, New Caledonia, Tahiti, USA and of course New Zealand and Australia have found the time to attend SPRSCS 2001 in Melbourne September 27-28-29.

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